State Profile

Spring 2004

Alabama

Alabama posted its third consecutive year of employment losses in 2003.

- An economic recovery in Alabama proved elusive in 2003, as payrolls shrank for the third consecutive year, although losses moderated from the levels seen during the recent recession (See Chart 1). Unemployment rates remained near their recessionary highs; however, continued declines in the size of the labor force may indicate even more underlying weakness in the labor market.

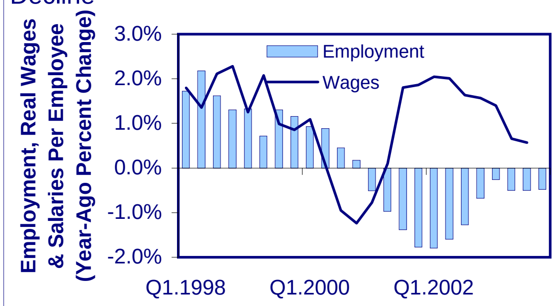
- Economic performance across the state varied widely, although many areas continued to lose jobs (See Map 1). Just two major metropolitan areas (Montgomery and Huntsville) posted employment gains in 2003. In contrast, employment in both Birmingham and Tuscaloosa fell by 0.7 percent.

- Manufacturing continued to lose jobs in 2003, a result of ongoing structural changes in the sector. In rural areas, where manufacturing remains dominated by textiles and apparel production, sharp employment declines persist. In contrast, urban areas, generally buoyed by expansion in automobile manufacturing and the influx of parts suppliers, have seen recent growth or stability. Growth in automobile manufacturing is becoming increasingly important to the health of the overall state economy. The auto industry accounted for over 30,000 jobs with a payroll of $1.4 billion at mid-year 2003. Moreover, average wages exceeded those in the more traditional industries by a wide margin.

- Despite continued weak economic conditions, home price appreciation remained resilient in most metropolitan areas of the state. The most significant price gains occurred in Birmingham, Dothan, and Gadsden in third quarter 2003. Existing home sales statewide increased during the third quarter of 2003, rising over 25 percent from a year earlier. Although gains have continued in housing markets, homeowners may be under some stress as the number of loans in foreclosure remained near record levels in 2003.

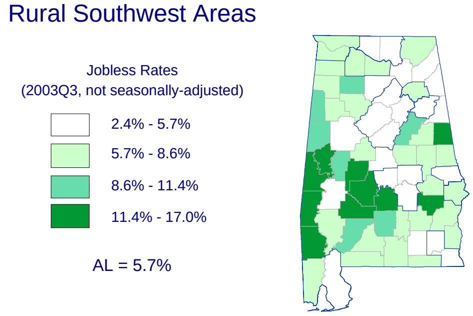
- Slowing job losses may have helped revive state revenue collection in fourth quarter 2003. Nonetheless, Alabama's fiscal challenges continue as the costs of Medicaid and

Chart 1: Employment in Alabama Continues to Decline



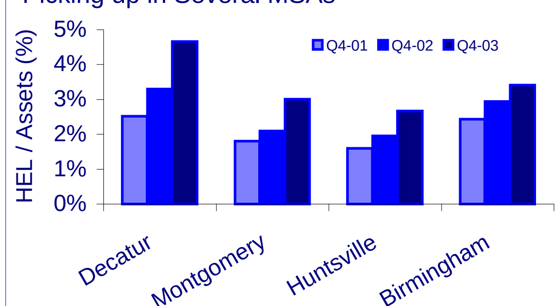
Source: Bureau of Labor Statistics, Bureau of Economic Analysis (Haver Analytics)

Map 1: Alabama Jobless Rates Are Highest in Rural Southwest Areas



Note: Dark outlined counties are metropolitan areas (1999 definitions).
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Growth in Home Equity Lending is Picking up in Several MSAs



Source: Bank Call Reports December 31st.
Note: Only MSAs with 3 or more certs were used.

health and pension benefits for state employees continue to rise. In early 2004, the state's Education Trust Fund and General Fund announced a combined shortfall in excess of $500 million. Consequently, the state may be forced to cut costs through a reduction in employment later in 2004.

Alabama commercial banks remain in generally sound condition.

- Net income at Alabama commercial banks reached a record high for 2003. Despite slower earnings growth, these institutions reported $2.7 billion in net revenue for 2003, up from $2.6 billion one-year earlier. Nevertheless, profitability at these institutions continued to suffer as both the median return-on-assets (ROA) and net interest margin (NIM) ratios experienced declines, although remaining mostly in line with the national medians of 1.1 and 4 percent, respectively. Lower provision and noninterest expenses combined with higher noninterest revenues were not enough to offset the decline in net interest income for the year. Only 43 percent (65 banks) of Alabama's commercial banks reported an improvement in ROA, with just over 20 percent (32 banks) reporting a positive change in NIM during, 2003.

- Amid stable loan growth, general asset quality trends were favorable throughout the state. The median loan-to-asset ratio remained around 61 percent, while median past-due and nonaccrual loan levels declined to 2.81 percent at December 31, 2003, a falloff of 28 basis points during the year. With the exception of multi-family loans, the noncurrent portion of past- due loan levels improved across all other loan categories. In addition, no significant charge-off activity was reported during 2003.

- While overall loan growth moderated in the state, a few lending lines reported an increase in activity over the last 12-months. At urban banks in the state, median home equity loans (HEL) jumped 120 basis points over the past two years, climbing to 2.7 percent of assets at December 31, 2003. Growth in this loan category was driven primarily by banks located in the Mobile and Decatur MSAs, where HELs as a percentage of assets has risen in excess of 2 percentage points since December 31, 2001 (See Chart 2). Generally poor economic conditions in the state may have forced borrowers to turn to the equity value in their homes to support further consumption. If this is the case, prolonged economic weakness and higher interest rates could hamper the debt service capacity of these borrowers.

- After several years of negative loan growth, larger institutions in the state experienced an increase in their commercial loan (C&I) portfolio at year-end 2003.[1] As a percentage of assets, aggregate C&I loans at these banks grew 70 basis points to 13.5 percent at year-end 2003, up from 12.8 percent a year earlier. As many of these larger institutions have extensive interstate operations, the growth in this loan segment may have occurred in other states. In contrast, banks more apt to lend locally, those with assets less than $10 billion, are still experiencing a decline in their C&I loan portfolio. This decline would suggest a slower resumption of business investment spending than at the national level.

- As the various growing segments of the loan portfolio begin to season, some banks in Alabama could see a rise in delinquency levels and charge-off rates. Nevertheless, median Tier 1 capital remained strong at 9.2 percent, just above the national median of 9.1 percent. Furthermore, median reserve levels were also steady at roughly 1.5 times noncurrent loans, but remain below the national median of 1.9 times.

- Commercial real estate (CRE) lending continues to grow at many banks in the state. Over the last year, CRE lending grew rapidly in the Dothan and Mobile metropolitan areas. While growth was a bit slower at banks in the Birmingham market, the median CRE-to-asset ratio is above national levels.

- Construction and development (C&D) lending grew moderately at banks in the Dothan MSA and Birmingham MSA, but fell slightly at banks in the Mobile MSA. However, the median C&D loan-to-asset ratio of 10 percent at banks in the Birmingham MSA and 6.9 percent in the Dothan MSA remained well above the national urban median of 4.7 percent of assets.

[1] Larger institutions have assets greater than $10 billion.

Alabama at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	162	163	170	170	168
Total Assets (in thousands)	214,751,024	203,588,302	192,020,998	183,672,719	179,758,400
New Institutions (# < 3 years)	6	8	9	7	4
New Institutions (# < 9 years)	17	14	13	10	7

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.32	9.46	9.45	9.64	9.65

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.68%	3.03%	3.17%	3.13%	2.91%
Past-Due and Nonaccrual >= 5%	39	30	40	36	33
ALLL/Total Loans (median %)	1.35%	1.33%	1.28%	1.26%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.48	1.50	1.32	1.59	1.50
Net Loan Losses/Loans (aggregate)	0.45%	0.50%	0.50%	0.37%	0.35%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	12	10	12	13	10
Percent Unprofitable	7.41%	6.13%	7.06%	7.65%	5.95%
Return on Assets (median %)	1.04	1.06	1.00	1.09	1.11
25th Percentile	0.72	0.77	0.63	0.76	0.83
Net Interest Margin (median %)	4.01%	4.25%	4.01%	4.16%	4.21%
Yield on Earning Assets (median)	5.86%	6.77%	7.92%	8.44%	8.01%
Cost of Funding Earning Assets (median)	1.85%	2.56%	3.92%	4.25%	3.86%
Provisions to Avg. Assets (median)	0.24%	0.28%	0.27%	0.21%	0.20%
Noninterest Income to Avg. Assets (median)	0.72%	0.71%	0.67%	0.69%	0.67%
Overhead to Avg. Assets (median)	2.80%	2.81%	2.86%	2.81%	2.83%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	74.27%	74.00%	73.06%	72.58%	69.72%
Loans to Assets (median %)	60.66%	61.63%	61.82%	61.84%	59.95%
Brokered Deposits (# of Institutions)	46	43	35	43	30
Bro. Deps./Assets (median for above inst.)	4.28%	3.64%	2.89%	2.50%	1.76%
Noncore Funding to Assets (median)	25.19%	24.54%	24.05%	24.25%	22.56%
Core Funding to Assets (median)	63.13%	63.87%	64.53%	64.30%	65.89%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	106	105	108	109	108
National	21	20	23	24	25
State Member	24	26	27	25	23
S&L	4	5	5	5	5
Savings Bank	7	7	7	7	7
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	101	13,378,136	62.35%	6.23%
Birmingham AL	20	177,642,107	12.35%	82.72%
Mobile AL	8	1,079,198	4.94%	0.50%
Dothan AL	7	964,270	4.32%	0.45%
Montgomery AL	4	16,732,788	2.47%	7.79%
Florence AL	4	807,471	2.47%	0.38%
Decatur AL	4	1,648,556	2.47%	0.77%
Tuscaloosa AL	3	500,148	1.85%	0.23%
Huntsville AL	3	582,660	1.85%	0.27%
Anniston AL	3	232,468	1.85%	0.11%
Gadsden AL	2	289,826	1.23%	0.13%
Columbus GA-AL	2	305,860	1.23%	0.14%
Auburn-Opelika AL	1	587,536	0.62%	0.27%